

ID: CCA\_2009081116305537

Number: **200942047**

Release Date: 10/16/2009

Office:

UILC: 6231.03-00

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**From:**

**Sent:** Tuesday, August 11, 2009 4:30:59 PM

**To:**

**Cc:**

**Subject:** RE: Schedule K-1 Information Return for Partner which is a Corporation / Dividend Received Deduction (DRD) Reporting on TEFRA 1065 and Corporate Partner's K-1

Section 703(a)(1) requires that the items listed under section 702 be separately stated. Section 702(a)(5) requires the separate computation of "dividends with respect to which . . . [section 243(a) and (b)] appl[y]." Treas. Reg. 1.703-1(a) also requires the partnership to separately state those items that may affect different partners differently. So the partnership is required by statute to separately state the portion of dividends on line 6b of the Schedule K-1 that came from corporations that are members of the same affiliated group or that came from foreign corporations if that separate statement will affect the dividends received deduction of a corporate partner.

If the partnership did not do that, we may need to open a TEFRA proceeding in order to determine the allocation of Line 6b between foreign corporation dividends and domestic corporation dividends and the division of domestic corporate dividends between affiliated and non-affiliated corporations (unless the partner is willing to sign a partial closing agreement as to this allocation).